

BARS POLICY ISSUES

ISSUE NO. 1 - METHOD OF ACCOUNTING: CASH VERSUS ACCRUAL

A policy decision is needed to determine the method of accounting to be employed in the new Budget and Accounting Resources System (BARS), specifically cash or accrual.

BACKGROUND:

- o Historically, the Agency has maintained its financial records on a cash basis. However, two events have forced the Agency to reconsider this method. The first was the recommendation by the Long Range Financial task force of 1984 that the Agency adopt an accrual basis of accounting, at least in respect to the accounts payable area, and the second event was the Agency decision to utilize commercial packaged software for the new financial system.
- o The Agency will be constrained by the capabilities of Cullinet's 1.3 package software which utilizes the accrual method of accounting for invoice type transactions.
- o There is a potential work-around for using the cash method. This could be accomplished by changing the effective date to the pay date which would require an extra step to be performed by the auditors using the accounts payable package.

ALTERNATIVES:

The options that are available are:

- o Accrual Accounting - Under this concept, the Agency would adopt the accrual method of accounting. This would be in line with the recommendations of the Financial task force of 1984, as well as bringing the Agency into conformance with the rest of the government.
 - Advantage: conform with OMB/GAO and Cullinet 1.3
 - Disadvantage: the Agency would have to switch to a new method of accounting,
- o Cash method - All transactions would be on a cash basis.
 - Advantage: no change in the present method of accounting; the Agency's financial reports would remain unaffected
 - Disadvantage: would require a work-around to the package software;
would require an extra step on the part of the auditors

who input vendor invoices to the accounts payable package.

- o Mixed accrual and cash accounting - This would utilize the accrual method for vendor payment, and the cash method for all other transactions.

- Advantage: flexibility and minimal adaptation

- Disadvantage: financial reports would have to be adjusted for two methods of accounting

RECOMMENDATION: Accrual method

The Agency is implementing a new system that utilizes accrual accounting and the government has long mandated this method in an effort to standardize reporting.

It would be feasible to take advantage of the method of accounting presently utilized in the package software which would enhance our adaptation effort. Therefore, we recommended that the Agency adopt the accrual method of accounting for the BARS/CLAS effort.